

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
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FISCAL IMPACT STATEMENT

LS 6920

BILL NUMBER: HB 2078

DATE PREPARED: Jan 5, 2001

BILL AMENDED:

SUBJECT: Income Tax credit for Inventory Taxes paid.

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FUNDS AFFECTED: ☒ **GENERAL**
☒ **DEDICATED**
FEDERAL

IMPACT: State

Summary of Legislation: This bill provides a refundable income tax credit for a percentage of property tax paid on inventory.

Effective Date: January 1, 2002.

Explanation of State Expenditures: The Department of State Revenue will have additional administrative expenses related to the updating the tax forms and monitoring this tax credit.

Explanation of State Revenues: This bill would allow a business inventory tax credit based on a percentage of property taxes paid on inventory. The credit would be limited to 8.3% in CY 2002, 18.9% in CY 2003, 29.2% in CY 2004, 39.7% in CY 2005, and 50% in CY 2006 and thereafter. The bill also sets the maximum amount of allowable credits that may be granted in a calendar year and requires the Department of State Revenue and the State Tax Board to determine the percentage of tax credits which will not exceed the total dollar amount allowed.

The credit may be taken against the taxpayer's liability under the corporate gross income tax, adjusted gross income tax, and supplemental net income tax. If the amount of the credit exceeds the taxpayer's liability, they may carry forward the excess in subsequent years or they may claim a refund.

Estimation Issues: In estimating the impact of this bill, special attention was given to the impending real property reassessment. The final rules on real property assessment will have a direct impact on property tax rates and the amount of the property tax levy that will be attributed to inventory. Reassessment will shift some of the property tax burden from personal property owners to real property owners. Due to the uncertainty surrounding the next reassessment and the amount of the shifts, this analysis projects the cost of the credit within a range, using a small shift and a large shift. The smaller total assessed value increase of 25% was based on previous Indiana reassessments, while the larger total assessed value increase of 80% was based on the estimated impact of reassessing property using a market value approach. It was also assumed that the next reassessment will apply to property assessed in 2002 with taxes first paid in 2003 as mandated in the latest order from the Indiana Tax Court.

Data: According to the State Tax Board's Property Tax Analysis for various years, the net property tax on inventory equaled \$402 M in CY 1999. The 1998 pay 1999 inventory assessed value was \$4.5 B and has grown at an average annual rate of 4.9% over the last five years. The statewide net average property tax rate was \$8.5549 per \$100 AV in CY 1999 and \$8.6955 per \$100 AV in CY 2000.

Fiscal Impact: Future inventory assessed values were projected based on historical data and were then reduced to account for credits. Future average net property tax rates were also estimated. Based on estimates of future total tax levies and total assessed values, it is estimated that the statewide average net tax rate will grow at a rate of about 2% per year in nonreassessment years. An estimate of the future net property tax on inventory was then computed by multiplying the estimated net assessed value of inventory by the estimated net average tax rates.

The applied percentages of tax credits under this proposal along with the estimated credit amounts for the respective years are identified in the table below:

Property Tax Year	% Credit	Estimated Credit Before Limit	Estimated Credit with Limit
2002	8.3%	\$40 M	\$30 M (max)
2003	18.9%	\$55 M - \$79 M	\$55 M - \$68 M (max)
2004	29.2%	\$90 M - \$130 M	\$90 M - \$105 M (max)
2005	39.7%	\$131 M - \$188 M	\$131 M - \$143 M (max)
2006	50%	\$168 M - \$241 M	\$168 M - \$180 M (max)

The credit would reach its cap of \$180 M per year for CY 2007 and years thereafter.

Although this analysis assumes that reassessment will be effective for property taxes paid in 2003, further legal action could delay the effective date. Without reassessment, the property tax on inventory would most likely be higher than the estimates used in this analysis. However, this should be of no consequence here since the bill includes a cap on the dollar amount of the credit.

Anticipating changes in estimated quarterly tax payments along with the maximum credit allowed, there could potentially be a loss of **\$5 M** in revenue for **FY 2002** and **\$59 M** in **FY 2003**. This assumes that some corporate tax filers will make adjustments in their second quarter tax payments in 2002. The FY 2003 estimate accounts for the remaining \$25 M in tax credits for CY 2002 to be reconciled in April 2003 and adjustments of \$34 M in estimated tax payments to accommodate the CY 2003 tax credits.

Income tax revenue is deposited in the General Fund and the Property Tax Replacement Fund.

Explanation of Local Expenditures:

Explanation of Local Revenues: Local revenues would not be affected by this proposal as this is a state-paid income tax credit for property taxes paid on inventory.

State Agencies Affected: Department of Revenue, State Tax Board.

Local Agencies Affected:

Information Sources: Property Tax Analysis, State Board of Tax Commissioners; Local Government Database.